

THE LOGIC OF MONEY

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“THE LOGIC OF MONEY.”

AN ESSAY

ON THE

PRINCIPLES OF CURRENCY,

AND THE

THEORY OF BIMETALLISM,

BY

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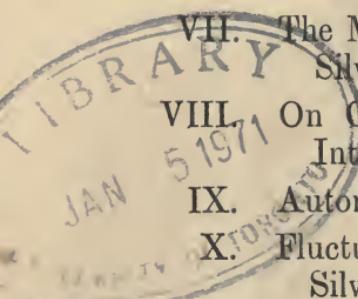
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PARAGRAPHS.



- I. Distinction between Silver and Gold as Commodities, and Silver and Gold as Money.
- II. The Computation of Money.
- III. The Standard of Value.
- IV. Real and Nominal Currency.
- V. A Bimetallic Currency of One Standard.
- VI. A Bimetallic Currency with Two Standards.
- VII. The Mint Ratio and Market Ratio of Gold and Silver.
- VIII. On Coin or National Money and Bullion or International Money.
- IX. Automatism of Money.
- X. Fluctuations in the Market Ratio of Gold and Silver in a Bimetallic Currency with Two Standards.
- XI. Discrepancy between the Mint and Market Ratio of Gold and Silver with One Standard.
- XII. Effects of the divergence between the Mint and Market Ratio of Gold to Silver.
- XIII. Further effects of the Fixed Ratio on Trade and Domestic Currency.
- XIV. The English Monetary System.
- XV. Effects on the Indian Trade of a Currency with Two Standards.
- XVI. The idea of an International Currency with Two Metals and One Standard, or Fixed Ratio.
- XVII. The Aim of Modern Bimetallism.

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THE LOGIC OF MONEY.

I.

DISTINCTION BETWEEN SILVER AND GOLD AS COMMODITIES, AND SILVER AND GOLD AS MONEY.

Money is the name given to any Commodity which is used as a general medium of exchange for other commodities. The qualities which adapt a material for best discharging the functions of money are, firstly, that it should be something which is an object of general desire : secondly, that it should be of a less perishable nature than other Commodities ; and thirdly, that it should possess the capability of being easily divided into homogeneous parts. Gold and Silver have been the metals found to unite in the highest degree these three requisites, viz., desirability—durability—and divisibility.

Gold and Silver therefore have been adopted by all modern civilized communities as the material both of coined and uncoined money. Gold and Silver must, however, be always regarded under two aspects, which at the outset of the subject should be carefully distinguished ; viz., Gold and Silver considered as commodities, and Gold and Silver considered as money. Gold and Silver are only Money, when they are in the *act of discharging the functions of money.*

At all other times these metals are Commodities, which may be used for various other purposes ; but as media of exchange Gold and Silver are only money, when em-

ployed in the operation of exchange. The sovereign in a man's pocket is a piece of Gold of a certain weight and fineness, but it is only a coin or a part of the currency, when it is engaged in the process of being exchanged for some other commodity.

Hoarded or stored up Gold and Silver is not money until it is changing hands, or circulating, as it is termed, in exchange for commodities. Even a banker's reserve is not money, (although it is a basis of credit) until it is withdrawn or being spent by depositors. It is not fair therefore to say as Mr Barbour asserts⁽¹⁾: "That not only the silver or gold, which is circulating as coin, but also the silver or gold, which is hoarded with a view to being made into coin in case of need, is performing the duty of money."

Hoarded Silver and Gold are commodities and may be regarded as constituting a greater or less quantity of precious metals in a country, but they cannot be considered as constituting a greater or less amount of *Money* in a community. To estimate them as money we should find a fruitful source of confusion and error. The precious metals are not performing the duty of money, when they are discharging no function at all, or when they are only used as ornaments. It was the custom among many ancient communities and is still a practice with some barbarous nations to inter their deceased kings and great warriors in a panoply of gold armour. Would Mr. Barbour maintain that buried metal is in any sense performing the duty of money? Perhaps he would contend that it is only when such metals are stored for the purpose of being some time used as money. It is obvious, however, that this argument has no force, because it is impossible to appraise the actual value of an intention which may or may not be realised. Mr Barbour, like many others of his school of Economists, per-

(1) *The Theory of Bimetallism.* Ch. ii. p. 7.

sists in treating money as a statical and not as a dynamical phenomenon. The very term "Currency," however, is repugnant to the conception of money as a system of forces in equilibrium.

II.

THE COMPUTATION OF MONEY:

It follows from the preceding remarks on the distinction between Gold and Silver regarded as Commodities and Gold and Silver regarded as Money, that it is only in the former character, that specific quantities of the precious metals are susceptible of absolute, exact, and constant computation:—two ounces of gold considered as a commodity is exactly twice as much as one ounce of gold—just as two yards of cloth are twice as much as one yard of cloth, and two ounces of gold existing *now* and in England is just twice as much in quantity as one ounce of gold existing a thousand years ago and in China. Considered as money, however, it is by no means true, that two ounces of gold *now* and in this country, is twice as much money as an ounce of gold a thousand years ago and in some other locality. Regarding Gold and Silver as *Money*, the only mode of computing or estimating its amount is by reference to its value or purchasing power, *i.e.*, the quantity of other Commodities for which it will exchange. Now, the value or purchasing power of an *identical* quantity of gold or silver may be different in different periods of time, or in different countries, so that one ounce of gold may now or here, exchange for a less quantity of commodities than one ounce formerly or in some other place. It is even possible, that at the same time and place 100 ounces of gold or silver might not exchange for 100 times as much as one ounce of gold or silver. A process termed bull-

ing the market is well-known to dealers. It consists in putting up the price of a commodity, when the demand for it is seen to be increasing. Thus, if a certain quantity of commodities is sold for an ounce of gold, and the possessor of the commodities sees that the buyer is anxious to get more, the seller will naturally enhance the price of the next lot,—so that the second ounce would purchase less than the first, and the third less than the second and so on in a manner, which economists would say was according to a law of diminishing return.

It is very important to understand precisely in what sense money may be called a measure of value. If a quarter of corn is worth twice as much as a coat, and a coat would exchange for one gold sovereign, then we should say that a quarter of corn would exchange for two gold sovereigns ; and the sovereign would be the measure of value of the coat with respect to the corn. But the sovereign is only such a measure of value on the assumption that two sovereigns are quantitatively twice as much as one sovereign, and this is only true when we consider the sovereign as a parcel of metal of a specific quantity or weight, and not as a coin in the act of discharging the functions of money. As a measure of value, therefore, Gold and Silver must be viewed purely in their quantitative aspect, without any reference to their value or purchasing power. Locke wrote, “ If one grain of silver has an intrinsic value in it, two grains of silver has double that intrinsic value, and three grains treble and so on proportionably.”⁽²⁾ Locke fell into confusion, however, when he went on to say, “ If one ounce of silver will buy, *i.e.* is of equal value to, one bushel of wheat, two ounces of silver will buy two bushels of the same wheat, *i.e.* has double the value. Hence it is evident, that an equal quantity of silver is

(2) McCulloch’s edition of Locke’s “Essay on the Value of Money.” p. 313.

always of equal value to an equal quantity of silver.” Locke has here evidently confused the notion of value or purchasing power of money with that of specific quantity of money computed in terms of itself. So Mr. Barbour tries to show the superiority of a metallic currency by arguing “The farmer can sell his horse for sovereigns in full hope that three months afterwards he will be able to buy another horse, equally good, for the same sum.”⁽³⁾ What a farmer really thinks is that three months afterwards he will be able to buy a *better* horse for the same sum, and this is the essence of trade, which depends upon the fluctuations in the purchasing power of money. Mr. Barbour confuses intrinsic value with purchasing power. So, another modern Economist writes,⁽⁴⁾ “What the ordinary man who lends 5*l.* expects, is to receive about the same amount of general purchasing power he lent. It is nothing to him how many ounces of gold this may at any time happen to command.” *

III.

THE STANDARD OF VALUE.

The only reason, why a certain coin should exchange for a certain lot of commodities, is because this coin contains a quantity of metal, which, if *uncoined*, would exchange for the same lot of commodities. This principle governs the English *Gold* coinage of the present day and governed the early *Silver* coinage of this realm. It is a principle which must regulate every sound monetary system as distinguished from a Token or Counter Currency. It is a principle which may be ignored or disguised, but which can no more be evaded than the principle of gravitation can be evaded by a material

(3) Theory of Bimetallism. Ch. i. p. 3.

(4) “Irregularity of Employment and Fluctuations of Prices.” Page 46 H. S. Foxwell, Professor of Economics, University College, London.

body. It follows from the foregoing law, that what is termed a standard of money measurement, or the unit of a monetary system, must be a fixed parcel of gold or silver regarded as a constant specific quantity of metal without any reference to its exchange value or purchasing power. All coins must be parts or multiples of such a unit considered with reference to the quantity of metal contained in the standard unit, and this quantity of metal is fixed and absolute without regard to time or place. The financial advisers of William the Conqueror, who were Jews, seemed to have thoroughly understood and completely adopted these principles when they established the currency system of this realm. A definite quantity of silver of a weight known as a Tower pound, which was something between a Roman pound and our pound Troy, was taken as a standard unit of money measurement. This Tower pound was divided into twenty parts which were called shillings, and each shilling was divided into twelve parts, named pennies. The weight of a penny, therefore, or a dwt. was a one two hundred and fortieth part of a Tower pound; or a twelfth part of a shilling which was one-twentieth part of a pound. The coins in common use were the silver pennies, each weighing one-twentieth part of an ounce in silver, and worth between 2d. and 3d. of modern English money. The shilling or twentieth part of a pound was not actually coined, but was termed the money of account, according to which, a pound sterling was computed as equivalent to twenty shillings, and the shilling, as equivalent to twelve pence. This system of coinage was sound and practical, and appears to have worked satisfactorily up to the reign of Edward I. This Monarch unwisely banished the Jews from his kingdom. The great business of the Jews in this and all other countries of Europe, consisted in trafficking in the precious metals, negotiating loans, and regulating finance.

When the Jews quitted England, their place and their

occupation were taken over by Italians, and these Italians seem to have imported changes into the English monetary system, which were productive of infinite confusion and evil.

Hitherto, English legalized money had been made *only* of *one* metal, *i.e.* of silver of an ascertained degree of fineness; and the separate coins were of a fixed and definite weight, so that a merchant who employed a pound, a shilling, or a penny, in exchange for commodities, was certain that he was employing a pound weight of silver—or the twentieth part of a pound—or the 240th part of a pound. The Italians, however, introduced a second metal, *i.e.* gold, as an instrument of commerce which soon found its way into the English currency, and was subsequently regularly coined by the State Mint together with the silver pence. But a difficulty presented itself as soon as the second metal became a part of the English currency. The silver Tower pound had been, and was, the standard, according to which the quantity of silver in a current silver coin of the realm was estimated, but there was *no* Tower pound of gold according to which the quantity of gold in a coin could be measured.

IV.

REAL AND NOMINAL CURRENCY.

We have seen that in the system of currency adopted in this country after the Norman Conquest, the nominal value of a coin depended upon the quantity of silver which it contained. In other words, the nominal value of a coin corresponded with its real value. About the year 1300, however, in the reign of Edward I., this sound system of currency appears to have been abandoned. The Tower pound weight of silver, instead of

being divided into twenty parts called shillings, which were each again divided into twelve parts called pennies containing a penny-weight of silver, was divided into 30 or 40 parts *still* denominated shillings, and twenty of these shillings was *still* called a pound in money. It is obvious, therefore, that a pound sterling of money no longer contained a pound weight of silver, and that a shilling no longer represented the twentieth part of a pound weight in silver.

Henceforth, money was said to be measured by *tale*, *i.e.*, by the number of pieces in a sum of money and not by weight. The distinction between the mode of estimating a quantity of money by *weight* and by *tale*, will be manifest in the following illustration. A farmer undertakes to pay for his land an annual rent of 100 shillings. If payment is made by *weight* the annual sum will be 100 times the twentieth part of a pound weight of silver, or five pounds weight of silver money. On the other hand if the farmer was to pay in *tale* he would pay 100 silver coins, each denominated a shilling—but each containing as much weight of silver as the law chose to prescribe. It is evident, therefore, that the sum paid, in the first case, will be real and natural money, and in the second case, token, counter, or artificial money. It seems to have been supposed,—incredible as it may appear—that an exchange value could be given to coins by the decree of a Prince or a Parliament. Hence the weight of silver in a coin was continually being diminished, while the denomination of the coin was retained. It was hoped by those who had the control of the currency, that by this means, from time to time, the royal treasury might be replenished. Supposing a prince required arms and equipments for war, he would be obliged to exchange a certain amount of silver to the maker of armour or the vendor of provisions. If then the prince had 100lbs. weight of silver in his pos-

ession, he could purchase commodities to that amount, promising to pay 100*l.* in money, on the understanding that 100lbs weight in silver, was represented by 100*l.* in money. It seemed a happy device to hit upon, to economise the Royal treasury, for the king to issue a mandate that 100*l.* in money should contain henceforth 50lbs. weight in silver, instead of 100lbs. weight, and that the armourer or provision dealer should still receive this 100*l.* in money as a just payment for his goods. Of course every debtor throughout the kingdom could avail himself of the same privilege, so that every creditor would be defrauded to the amount of half his just dues. Naturally common sense and self-interest would soon operate to remedy the dishonesty of statecraft. If 100*l.* money was, henceforth, to contain only 50lbs. weight of silver, instead of 100lbs. weights the merchant or producer could compensate himself by demanding 2*l.* money in exchange for the same amount of goods for which he had formerly charged 1*l.* money. In other words, prices would rise, a change which is always hailed with satisfaction by the trafficker. Another mode of depreciating the value of the currency was to impair the fineness of the silver of which the pieces of money were composed. A certain portion of *alloy* was always mixed with pure silver to give it a sufficient degree of tenacity for coining purposes, and this *alloy* was known and allowed for, in estimating the quantitative exchange value of coined money.

From time to time, the state financiers, who superintended the coinage, surreptitiously increased the quantity of alloy, so that the absolute quantity of silver in a coin was less than it professed to be. It was during the reigns of Henry VIII. and Edward VI., that the debasement of the silver currency from this source, reached its height. The gold metal used in the coinage at that time, does not seem, however, to have been so much

degraded as the silver, and this reason probably operated in bringing about a preference for gold over silver, as the metal to be considered the standard material of the currency.

V.

A BIMETALLIC CURRENCY OF ONE STANDARD.

We have said that, when the Italians during the reign of Edward I. introduced the use of Gold into the English currency, there was no standard or unit quantity of that metal, like the Tower pound weight of silver, according to which the quantity of gold in each coin could be accurately estimated. As a consequence of this, a gold piece of money had to be estimated in worth with respect to the quantity of silver in weight, or the number of silver pieces of money for which it should be equivalent. Thus a Florence, or a Byzant, as our old gold pieces were designated, were said to be valued at a certain number of silver shillings, and this value was continually changing, nominally in accordance with the changes which were from time to time made, in the quantity of silver metal contained by each silver shilling. Gold like silver may of course be measured either in terms of itself i.e. in quantitative parcels referred to some gold unit, or it may be measured according to the amount of silver it will purchase. The purchasing power of gold with respect to silver, or the quantity of silver for which a given quantity of gold will exchange is continually fluctuating from causes which we shall hereafter consider. The proportion of the quantities in which gold and silver is exchanging amongst metal dealers is called their market ratio. Thus, if 15 oz. of silver will exchange for one oz. of gold—the market ratio of silver to gold is said to be 15 to one. If 16 oz. of silver is exchanging for one

oz. of gold, the market ratio of silver to gold is 16 to one and is said to have increased, because 16 to one is a greater ratio than 15 to one. When gold pieces became concurrent with silver pieces as English money, the government authorities attempted to regulate the value of gold coins according to the market ratio of gold and silver. Gold money was then said to be rated at a fixed value at the Royal Mint, or place of State coining, in correspondence with the market ratio of gold to silver existing among dealers in those commodities. This State rating or regulation of gold was designed to protect the public from the speculative practices of the money-dealers.

VI.

A BIMETALLIC CURRENCY WITH TWO STANDARDS.

If the State authorities, who presided over the regulation of the Currency, had not attempted to fix the value of a piece of Gold money in terms of that of Silver, all commercial transactions must have been negotiated in exchange for gold, or for silver; each regarded as a separate and independent measure of value. The quantity of gold or of silver contained in coins of these metals, respectively, might have been measured according to some parcel of gold or of silver taken as a standard weight, so that each would appear to possess its own purchasing power, and to rest on its own basis of value. In such a system of currency, there is said to be a double standard in contrast to the system of currency in which there is only one standard metal. In a currency using a double standard, it is generally made legal for debts to be discharged in either gold or silver, at the option of the debtor; or, as it is technically phrased, both gold and silver are legal tender money.

For such a system to be equitable, all obligations should be liquidated with amounts of gold or silver equivalent to each other according to the market ratio of the value between these metals at the time the debt is discharged. But in consequence of the perpetual shifting of the market ratio between gold and silver, every trader would have to add to a knowledge of the special commodities, in which he dealt, an acquaintance with the fluctuations in the value of the precious metals. In contracts, extending over a long period of time, if gold and silver were each legal tender, the debtor if he could, would always take advantage of vicissitudes of the market value between gold and silver, and fulfil his obligations in the cheaper metal, or that metal which it would cost him the lesser amount of commodities to procure. Supposing for example a farmer contracted to pay a certain rent for his holding, during seven years, and at the time he entered into the engagement an ounce of gold was exchanging for 15 ounces of silver—then a certain measure of wheat might be sold or purchased for one ounce of gold, or 15 ounces of silver—and it would be indifferent to the landlord whether he received his rent in gold or in silver, provided that he was paid at the rate of one ounce of gold to 15 ounces of silver. In subsequent years, however, the value of silver in terms of gold might alter so, that an ounce of gold perhaps would be only equivalent to 10 ounces of silver instead of 15 ounces, in which case the farmer would have to sacrifice a measure-and-a-half of wheat to procure 15 ounces of silver, while he could obtain 1 ounce of gold for one measure of wheat as before. If the farmer, therefore, had his option, *i.e.*, if either gold or silver were legal tender, he would naturally discharge his rent in gold—so that silver would tend to cease being used as money. There would then ensue a demand for gold, which would have to be purchased with silver or other commodities, and consequently the

purchasing power of silver would tend to diminish, so that there is an adjusting principle, which would operate to bring silver into currency again.

If during the period supposed the purchasing power of silver had declined, so that perhaps twenty ounces of silver instead of fifteen ounces were exchanging for a measure of wheat—then, it would manifestly be to the farmer's interest to pay his rent in silver, since he could procure fifteen ounces of silver for three-fourths of a measure of wheat—in this case gold would tend to go out of circulation as money. But, as before, an adjusting or compensating force would be brought into play—the demand for silver would cause its purchasing power to increase until fifteen ounces would be again able to command a measure of wheat. Thus on the whole we see that in a bimetallic system using two standards, there is a natural tendency towards equilibrium in the market rates of gold and silver—a tendency which will be found to have an important bearing on the question of the expediency of adopting a bimetallic system of one standard. Although in a *two* standard bimetallic system of currency, gold and silver might be supposed to be employed as *two* independent standards of money; it would seem that the natural market rates between these metals, regarded as commodities, would always induce a relation to exist between them, when employed as money, so that practically, although gold and silver might appear to circulate independently as currency, they would really not be independent of each other—but their mutual value would be influenced by all the variations in the exchangeable value of each in respect to other commodities.

VIII.

ON COIN OR NATIONAL MONEY AND
BULLION OR INTERNATIONAL MONEY.

There is a general notion prevailing in the public mind that the term money is only properly applicable to the stamped coins, or to the paper notes issued by State authority, and at a State factory called the Mint. The function of this establishment is to manufacture certain pieces of gold or silver of a given weight and purity and to affix a mark or stamp as a guarantee or sign of their value. These coins constitute the currency of a community and are what is termed legal tender money—that is to say—the law considers them an adequate quitance of all pecuniary obligations. There is, however, another form in which gold and silver may constitute money, *i.e.*, be a common medium of exchange for other commodities. This is when gold and silver are mere masses, bars, or ingots of metal of an ascertained fineness, but without bearing upon them any mark or State voucher for their weight. It is in this form that the precious metals are used as media of exchange in all commercial transactions effected between the subjects of communities under different governments. The stamp or mark on coined money has no validity outside the State in which it is issued.

The value of uncoined money is determined by the weight of a given quantity, and the merchants or traders of different nationalities must agree with each other in the settlement of pecuniary obligations, as to the exact exchange value any quantity of gold or silver metal may possess. The pieces of coined money used in the community which recognises the authority of the stamp or mark on them, have always a tendency to degenerate to the status of a mere counter. It is not possible for private individuals in the ordinary trans-

actions of everyday life to test the purity or weight of the coins they employ. They pass from hand to hand, each person accepting them in discharge of a debt on the supposition that some one else will accept them in exchange for commodities.

Thus, coins will pass current in a community at a nominal value, sometimes very different to their real value. It is, however, only within the limited area of a State owing allegiance to the govermental agency which issued the coin, that its nominal value is accepted. Directly these coins are used in international transactions, they *pass*, and they *can only pass* for the weight of metal which they contain. They may or they may not have the stamp effaced, *i.e.*, be transformed into actual bullion, but their purchasing power is determined by the real quantity of metal they contain.

IX.

AUTOMATISM OF MONEY.

The bullion or medium of external international trade and the coins or instruments of internal domestic commerce, do not constitute separate and independent systems of money, but are really only one currency in which the coined and uncoined metals are perpetually passing from one form into another. Part of the specie, or bullion which comes to a country as payments for exports is continually being taken to the State Mint, and in England may always be exchanged for its equivalent in coined money. In this way the internal currency of the country is replenished automatically, and exactly to the extent that is required for the purposes of the traffic carried on at home. It is not by any legal enactment of a State Government, that gold and silver is thus absorbed into a national currency; it is purely through the voluntary agency of traders, bankers, and profes-

sional money dealers. We see also, that the value of newly coined pieces of money must always accord with that of the bullion from whence they are fabricated. A batch of commodities must at any moment exchange for a certain weight of metal, coined or uncoined; otherwise, no one would carry his metal to the Mint. Coins are only a convenient, but not a necessary, form of money, and no possessor of a quantity of bullion would exchange it for coins at a loss to himself. After a time, however, as we have already noticed, there is a tendency for pieces of coined money to lose some of the *real* quantity of the metal they nominally contain, they become worn by wear and tear; but still they pass for an indefinite period as representatives of a value which they do not actually possess; they are in fact, mere tokens or counters. There is, even a principle operating in communities, known as "Gresham's Law," which tends to preserve nominal, or token money, in circulation, in preference to real money of full weight or as this principle is expressed, bad money tends to drive out good. The reason of this is simple, a lot of commodities, the value of which is, perhaps, the weight or quantity of metal in *ten* good sovereigns, may be found to exchange for *ten* old sovereigns, which only contain as much metal as *nine* new ones.

Ten old sovereigns are, thus, as much use as ten new ones, for home purposes. The trader, therefore, who has nine new sovereigns will be willing to part with them to the money dealer for ten worn coins, since, the ten worn coins will perform their function as well as ten new ones, and the trader will gain one sovereign by the transaction, to the money dealer it is merely a question of weight for weight.⁽⁵⁾

(5) Of course the money-dealer will charge a commission or otherwise share the profits on the transaction.

Once in the hands of the money dealer, coined money returns to its state of bullion, passes out of circulation at home, and becomes the money or medium of international commerce.

Thus we find that bullion is converted into coined money, and coined money again reverts to bullion by the spontaneous and automatic operation of human motives, which induce the individuals of a community to exchange commodities with each other. There is no absolute discontinuity between coined and uncoined money. It is not as some writers assert the "law, which gives the power to coined money" ⁽⁶⁾ any more than it is the law which gives the power to bullion money. The law gives the form to money, but the law cannot create the material of metallic money, or arbitrarily increase or diminish the quantity in a currency either coined, or uncoined. The volume of a currency is solely regulated by the desire of one part of the community to sell their commodities, and by the ability and willingness of another part to give gold and silver in exchange for them.

Commodities are as much the price of money, as money is the price of commodities.

In addition to the operation of "Gresham's Law" coins may lapse into bullion, whenever the exigencies of trade require imported commodities to be paid for. Although, however, State agency cannot govern the ebb and flow of the currency, it is expedient, for obvious reasons, that the function of coining money should not be in the hands of private individuals, but should be exclusively undertaken by a department of the State. Although the monetary tide is subject to influences over which princes and rulers have no control, it is highly important to a

(6) This is the burden of the reasoning in support of bimetallism contained in a recent pamphlet entitled "Anatomy of Money," by Henri Cernuschi. (King and Son).

healthy condition of commerce, that the vicissitudes in the movement of the precious metals should be accurately noted and publicly proclaimed. Hence the function of national banks, which assimilate the bullion of international trade, and convert it into the coined money required to exchange for commodities in a community.

X.

FLUCTUATIONS IN THE MARKET RATIO OF
GOLD AND SILVER IN A BIMETALLIC
CURRENCY WITH TWO STANDARDS.

It is manifest from the foregoing remarks, that uncoined money, or bullion, which is the medium of exchange for commodities between different nations, must be a bimetallic system of two standards, *i.e.*, consisting of gold and of silver metals—each parcel of which is measured quantitatively, according to its own independent standard, and takes its value in proportion to that quantity—the gold exchanging according to the purchasing power of gold, and the silver according to the purchasing power of silver. This is the natural form of a free system of currency, which has spontaneously developed in the commercial republic of civilized States. But although the *two* precious metals, gold and silver, are freely used as separate and independent measures of value for all other commodities—as we have already seen, the purchasing power of each with respect to other commodities, regulates their purchasing power with respect to each other. If the purchasing power of silver diminishes with respect to commodities and the purchasing power of gold remains the same with regard to those commodities, then the purchasing power of gold with respect to silver would increase, and conversely, if the purchasing power of gold with respect to silver was to increase then the purchasing power of silver with regard

to commodities would diminish. To repeat our former illustration, if, an ounce of gold will exchange for 15 ounces of silver, then, a certain measure of wheat may be exchanged at the same time and place for 15 ounces of silver, or 1 ounce of gold. Now, supposing the silver price of wheat was to rise, so that the measure of wheat was selling for 20 ounces of silver, while the gold price remained the same, then an ounce of gold would exchange for 20 ounces of silver, instead of 15 ounces. Or, supposing, that the silver price of wheat remained unaltered; but the gold price rose, so that a measure of wheat would sell for $1\frac{1}{2}$ ounces of gold, instead of 1 ounce only, then, $1\frac{1}{2}$ ounces of gold would exchange for 15 ounces of silver, or 1 ounce of gold would purchase only 10 ounces of silver instead of 15 ounces as before. It seems evident, then, that the market ratio between gold and silver may either be *directly* perturbed or *indirectly*. It may be *directly* perturbed when persons possessing gold wish to obtain silver, and are willing to part with their gold for a lessening quantity of silver. Some one might offer an oz. of gold for 14 or 13 oz. of silver, if he could not obtain 15 oz. So that the market ratio of gold to silver would instead of being 1 to 15, be 1 to 14, or 1 to 13. A similar effect may, of course, be produced (*mutatis mutandis*) if the owner of silver was eager to obtain gold and willing to part with his silver for gold at an increasing sacrifice. Thus we see, without entering into the causes of the increased demand for silver or gold, that when this demand is in operation, the market ratio of the two metals will alter. Again, if through any cause the demand for wheat should increase, and its silver price rise, we have seen (paragraph vi.) that the market ratio of gold and silver will be affected, and similarly, if the gold demand for wheat should vary, the market ratio of gold and silver would correspondingly fluctuate. These latter are *indirect* influences which disturb the market ratio of silver to gold.

The *direct* disturbance is evidently the effect of the transactions of bullion dealers creating a demand for one or other of the precious metals. The *indirect* disturbances, on the other hand, are manifestly due to the operation of the supply of, or the demand for, all the other commodities for which gold and silver are the media of exchange.

Among the modern advocates of a single standard bimetallism, we do not observe, that the *indirect* causes of the fluctuations in the market ratio, are sufficiently taken into consideration, the possibility of maintaining a fixed market ratio between gold and silver is always demonstrated from a consideration of the *direct* action and reaction of demand and supply in the bullion market, and no account is taken of the *indirect* causes which disturb the ratio, proceeding from the variations in the purchasing power of silver and gold with respect to other commodities.

XI

DISCREPANCY BETWEEN THE MINT AND MARKET RATIO OF GOLD AND SILVER WITH ONE STANDARD.

In a market using a double standard currency, *i.e.*, where gold and silver are each employed as separate measures of value in the exchange for commodities, it must often happen that a trader may be obliged to buy goods for silver and exchange them for gold, or *vice versa*. Under such conditions it is absolutely necessary that the trafficker should possess a knowledge of the ratio of gold to silver, or the purchasing power of one with respect to the other.

The trader in wheat, for instance, if he buys a measure of that commodity for 1 ounce of gold, and is offered 16 ounces of silver for the same, must know how many ounces of silver are equivalent to one of gold, in order that he may

be able to estimate whether the selling price will yield him a profit or a loss. Should the money changer give him an ounce of gold for every 15 ounces of silver, the offer of 16 ounces of silver by the purchaser of the wheat would evidently be a profitable transaction for the vendor. In order to facilitate commerce and prevent fraud, civilized States have generally undertaken to proclaim, with the authority of Government, the rate at which quantities of gold and silver are, or ought to be, exchanging for each other. The Mints, or coining establishments, of modern communities not only undertake the conversion of gold and silver bullion into pieces of gold and silver money, they also proclaim and enact the rate at which the gold and silver pieces will exchange for each other, and moreover, they assume the functions of money changers themselves, so that the public can always obtain the equivalent of money of one metal, in money of the other, by applying to the Mint, or State Bank. When this practice prevails, the currency ceases to be a double standard and becomes really a single standard system ; for, although two metals are in use the equivalence of one in terms of the other is constant, so that a parcel of commodities will only have one price, either in silver or in gold, according to which is the standard metal accepted by the community. If silver is used, then the gold price of a commodity will not be estimated according to its value with respect to gold, but according to the value of silver with respect to gold, and similarly *mutatis mutandis*, if the standard material of the currency be gold, as in this country. This system is what is known as the fixed Mint, or legal ratio, or one standard bimetallism.⁽⁷⁾ But although governments may decree, proclaim, and legalise the proportion in which quantities of gold and silver are to exchange for each other, and may even undertake to

(7) Some writers speak of two standards and a fixed ratio in the same system of Currency—but two standards and a fixed ratio are obviously incompatible—if there is a fixed ratio, there can be only one standard.

exchange them in this proportion ; it has always been found that private money changers or bullion dealers are not bound by such legal enactments, but barter quantities of gold and silver for each other, at a ratio constantly fluctuating through an infinite variety of influences, arising from the natural conditions of commerce. Hence there continually springs up a divergence between the Mint, or legal ratio of gold to silver, valid within the area of domestic commerce, and the market or natural ratio determined by the conditions of international trade. Thus Lord Liverpool wrote ⁽⁸⁾ " The Mint indentures of Charles I., James II., Queen Anne, and even of a part of the reign of George I., to the year 1717, had determined that the Guinea should pass at the rate or value of 20s. and the other gold coins in proportion: yet they did not pass at that which was then their legal rate value ; but at a much higher rate, or value, and in a part of the reign of King William the guinea was current at even so high a value as 30s. This increased rate or value was not owing singly to a mistaken estimation at the Mint of the relative value of gold to silver, but the gold coins rose or fell as the silver coins were less or more perfect." At the time to which Lord Liverpool is referring, silver was the recognised legal standard of the English currency, and the value of gold coins was supposed to be estimated with respect to silver, according to the Mint indentures, as they were called. Thus a guinea was 21s., and not a shilling a 21th part of a guinea, as would have been the case had gold been then as now, the recognised standard of currency.

(8) *Coins of the Realm*, by the Earl of Liverpool. Chap. 17.

XII.

EFFECTS OF THE DIVERGENCE BETWEEN
THE MINT AND MARKET RATIOS OF
GOLD TO SILVER.

We have said that in many civilized communities there exists a State agency, or institution, for the convenience of those who wish to change gold into silver, or silver into gold, and that in such an establishment the exchange value of gold to silver is usually enacted and proclaimed. But there exists also, in all communities, the private bullion dealer, whose business it is to traffic in and make profit out of, the precious metals. The distinction between these private and public agencies, is that in the State Bank, or Mint, the metals (gold and silver) are received from the public in the form of bullion or uncoined metal, and issued to the public in the form of coin or stamped metal, whereas, with the private money dealers, gold and silver metal is regarded only as bullion and no legalized ratio between them is recognized.

In the State Mint, in short, the precious metals are fabricated into domestic money, and through the private bullion dealer they again lapse into international money. In the State Bank, the currency is that of a single standard, or fixed ratio, but with the private money dealers the currency is that of a double standard or natural ratio. It is between these *two* agencies, viz., the State Bank with its *fixed* ratio of gold to silver money, and the private bullion dealer, with his *fluctuating* and natural ratio that the divergence between the Mint and market ratios of gold and silver exists. If the Mint authorities value (with respect to commodities) the coins made from an ounce of gold as equivalent to the value (with respect to commodities) of the coins made from 20 ounces of silver, then the Mint ratio of gold to silver is as 1 to 20, and is supposed to be stereotyped at this

rate, so that the public always may obtain an ounce weight of gold coins in return for an ounce weight of gold bullion ; or may take 20 ounces of silver bullion and receive in return, 20 ounces weight of silver coins ; or any one may receive 20 ounces weight of silver coins for 1 ounce of gold bullion ; or 1 ounce of gold coins for 20 ounces of silver bullion. These are equivalent expressions for gold in terms of silver, or silver in terms of gold, and are recognised, valid, and current, for all purposes of domestic commerce.

Now the Mint ratio being, as we have stated, 1 ounce of gold to 20 ounces of silver, let us suppose that through the influences of international trade, the natural or market ratio of gold to silver had altered so that the value of an ounce of gold bullion in commodities was equivalent to 16 ounces of silver bullion in commodities, then the money dealer might purchase 1 ounce of gold bullion for 16 ounces of silver, he could then take this 1 ounce of gold to the State Bank, or Mint, and receive in return for it 20 ounces of silver coins. Thus the bullion dealer would have commenced his transaction with 16 ounces of silver, and concluded it as the possessor of 20 ounces, having, therefore, made a profit of 4 ounces by the operation. This process may be repeated, with the result that the private money dealer would benefit, and the public treasury lose by each bargain, and the silver in the public treasury would certainly be exhausted, if a compensating principle did not begin to work. This compensating or adjusting influence would come into operation when it was perceived how great a profit was to be made by selling gold to, and buying silver from, the public exchequer. A competition of dealers would set in, and 17, 18, or 19 ounces of silver bullion would be offered for 1 ounce of gold, so that the market ratio would tend to approximate to the Mint ratio and the business would cease to be profitable. These effects are

generally summed up in the statement that the metal which is over-rated at the Mint tends to drive out of the currency that which is under-rated. In the illustration just given the silver would be said to be under-rated at the Mint, and the gold over-rated, because the real, or market value of an ounce of gold is not 20 ounces of silver, but 16 ounces.

XIII.

FURTHER EFFECTS OF THE FIXED RATIO ON TRADE AND DOMESTIC CURRENCY.

The overrating of gold at the Mint with respect to silver would, *firstly*, encourage the importation of commodities from countries having a silver currency; *secondly*, would tend to produce an efflux of silver from the home currency, and thus convert the home currency from a bimetallic to a monometallic system. And if silver were overrated, similar results, *mutatis mutandis*, would ensue. For, the conditions being as above, viz., the Mint ratio of coined gold to silver as 1 to 20, and the market ratio of bullion gold to silver as 1 to 16, the trader might import a measure of wheat, for which he paid 16 ounces of silver bullion or international money to the silver-using community; he might then sell the same measure of wheat at home for 1 ounce of gold uncoined money, for this he could obtain 1 ounce weight of gold coined money, which he could exchange for 20 ounces of silver coined money. Thus, the wheat trader would commence his transaction with 16 ounces of silver and finish with 20 ounces, irrespective of trade-profit, and we see how the silver would tend to leave the home currency to find its way into the country whence the wheat had been imported. The same adjusting or compensating influence would be set up by the competition of wheat traders, as we found was brought into play

by the competition of bullion dealers, so that 17, 18, or 19 ounces of silver would be offered for a measure of wheat, until the importation of wheat would cease to be especially profitable and the Mint and market ratios of gold to silver would tend to coincide. It should be noted, however, that this adjusting principle might be retarded or completely neutralized by a rise in the purchasing power of silver with respect to wheat, *i.e.*, by an increase in the quantity of wheat offered for sale. Such an increase would have the effect of preserving the price of wheat at 16 ounces of silver for the measure we have supposed, and thus the discrepancy between the fixed Mint, and natural ratios would tend to be maintained. Now, if the compensating principle failed to bring the Mint and market ratios of gold and silver to a level, the consequences would certainly be as we have shewn, that one or other of the metals would cease to be employed as domestic or coined money and the currency would in that case become monometallic instead of bimetallic.

The tendency of a single standard or fixed ratio bimetallic currency is therefore to become monometallic, and this result has actually happened in this country. Up to the end of the Tudor period of our history the English were a silver-using people. But before the close of the Stuart line the national standard material of the currency had become gold. The overrating of gold at the Mint in James I. reign was undoubtedly the cause of the silver leaving the currency. Strenuous efforts were made in the reign of William III. to reinstate silver, but in vain, as gold has ever since remained the standard metal of the English currency; while silver has only a restricted use, so that the currency is now practically monometallic.

Silver was indeed supposed to be the standard metal of the English coinage long after it had ceased really to be so, and this is the cause of infinite confusion in the

writings of Locke and Adam Smith. Lord Liverpool was the first clearly to recognise that gold, and not silver, had become the standard metal of the English currency. It is said that even Sir Isaac Newton had a difficulty in defining a guinea. If he had perceived that gold was the standard metal of this country, and not silver, he might have at once defined a guinea as simply a coin containing about a quarter of an ounce weight of gold, marked with a stamp as a guarantee that such a quantity of metal was contained in it. Owing, however, to the prevailing notion that silver was still the standard of currency, Newton instead of defining a guinea, as a coin containing a certain weight of gold, was obliged to describe it by its purchasing power in terms of silver, so that a guinea was not affirmed to be a quarter of an ounce of gold, but 21 silver shillings.

In reality, through the automatic operation of influences whieh no government can either create or prevent, the commercial community of this country had taken to measure the value of commodities *directly*, by the quantity of gold for which they would exchange, and *indirectly*, by the quantity of silver for which a certain quantity of gold would exchange, instead of, as hitherto, *directly*, by the quantity of silver for whieh they would exchange, and *indirectly*, by the quantity of gold for which a given quantity of silver would exchange.

This alteration, however, after having been in operation, by the will of the community, for a century, was only tardily recognised by the State authorities in 1774, and finally legalised, as in our existing monetary system, in 1816.

XIV.

THE ENGLISH MONETARY SYSTEM.

It should be particularly remarked that if the two metals (gold and silver) are employed in domestic currency, with a legalized ratio between them, the purchasing power of one or other of them, in the form of coin or domestic money, must coincide with the purchasing power of one or the other of them in the form of bullion or international money. So Locke wrote, "The natural value, then, between silver in bullion and in coin, is (I say) everywhere equal."⁽⁹⁾

The metal of which the purchasing power in coin is the same as the purchasing power in bullion, is that metal which is adopted as the standard for quantitative measurement; it being a matter of indifference whether a given quantity of metal is in the form of coin or in the form of bullion, the quantity is the real measure of value in international commerce, and there must be some kind of money which is a medium of exchange for commodities, common to domestic and international commerce. This money, common to domestic and international commerce, is not susceptible of an arbitrary or artificial value imposed upon it by State authority, but receives its value from the exigencies of commerce and the will of the trader. On the other hand where a legal or fixed ratio is enacted between two metals, *one* may be current at home with the fictitious value derived from its fixed ratio to the other. At the present day, gold is the standard metal in this country, and is a measure of value common to domestic and international commerce, so that an ounce of gold has the same purchasing power with regard to commodities, whether it is in the form of coin or bullion. Such, however, is not the case with silver, 20s. will pass for one sovereign, because it has been

(9) "Locke on Coins" (10th Edition 1801.) Page 173.

decreed that the silver metal contained in 20s. shall be equivalent in value to the gold metal contained in one sovereign. In reality, the silver metal contained in 20s. does not exchange for, and is therefore not equivalent to, the gold metal contained in one sovereign.

The quantity of silver in 20s. weighs about 4 ounces, and the bullion in a sovereign is now exchanging for about 5 ounces in silver, or in other words the Mint ratio of gold to silver is about 1 to 4, and the Market ratio 1 to 5.

It is often said that the value of silver has declined from 5s to 4s an ounce. This statement has positively no meaning except that, when the Mint ratio of gold to silver was fixed in 1816 an ounce of silver was actually worth the quarter of a sovereign, *i.e.* 5s.; while now it is only worth one-fifth of a sovereign, *i.e.* 4s. A shilling is a coin worth one-twentieth part of a sovereign by the enactment of the State, but it is really a quantity of silver metal only worth one-twenty-fifth part of the quantity of metal in a sovereign; in other words, a shilling as representing a twentieth part of a sovereign has only a *token* or nominal, not a real value. According to our present currency laws, the Mint will coin as much gold as is taken there, but *not* silver, because if the free coinage of silver was allowed anyone could purchase 5 ounces of silver bullion for 1 sovereign, take it to the Mint, and get it coined into 25s,—with which again he could purchase one sovereign, and a quarter of a sovereign, and repeat the process *ad libitum*, so that gold would tend to leave the Currency. For a similar reason, silver is not a legal tender in discharge of a debt above 40s. By these regulations, the maintenance of gold is insured as the standard metal for the measure of value common to domestic and international commerce, while silver has a token currency valid only for domestic use. When Locke wrote, although his

principles were incontrovertably sound, his conclusions were vitiated by his ignorance of the fact that silver had by the unwritten but resistless law of the people, ceased to be the standard metal and measure of value common to domestic and international trade.

XV.

EFFECTS ON THE INDIAN TRADE OF A CURRENCY WITH TWO STANDARDS.

The fluctuations in the value of gold with respect to silver, undoubtedly introduce an element of risk into the operations of international commerce, which it should be the object of a sound economic policy to minimize as far as possible. The currency of a country, like other social institutions, springs spontaneously from social needs, without express law or edict, and takes different forms in different communities. England finds itself using gold as the standard material of her currency ; but many of the countries with which she has commercial intercourse and notably her great dependency, India, employ silver as the chief metal in their coinage ; consequently an English trader exporting goods from this country to India, will be in the position of having to buy his commodities for gold money, while he has to receive his payment in silver money. Moreover credit is the soul of modern commerce, so that the shipper of goods from England to India would often not receive payment from his Indian consignee, for perhaps four or six months. Under these conditions, it may easily happen, that the immediate result of a commercial transaction shows a profit to the English exporter ; but that when the bargain is finally liquidated, owing to a fall in the purchasing power of silver with respect to gold the English merchant finds himself a loser, instead of a gainer, by

the enterprise. Supposing for example, when 10 silver rupees were exchanging for an English gold sovereign, an English shipper purchased Manchester goods for 1,000 gold pounds and was promised as payment in India for the same 11,000 silver rupees equivalent to 1,100 gold pounds. This would seem to yield a profit of 10 per cent: if, however, four or six months credit was allowed and during that time the purchasing power of silver with respect to gold had so declined that at the date of payment 15 silver rupees instead of 10 were exchanging for an English gold sovereign, then 11,000 silver rupees would not represent 1,100 gold sovereigns, but only $733\frac{1}{3}$ gold sovereigns, and the English trader instead of being a gainer of 100 sovereigns by the operation would be a loser of $266l. \frac{2}{3}$. Of course this is a somewhat extreme case, but it will serve to illustrate the uncertainty introduced into commercial transactions by the instability of the purchasing power of silver with respect to gold. Now, uncertainty in trade tends to benumb enterprise and therefore the industry of England which is employed in manufacturing commodities for India, will be checked and diminished. On the other hand, the Indian exporter of commodities from India to England, under the same conditions of the money market will be in a very different situation with respect to them. If, for example, the trader in Bombay purchased wheat or cotton for 10,000 rupees he might lay these commodities down in Liverpool for 1,100 gold sovereigns representing a profit of 10 per cent. payable at the expiration of four or six months. Should, however, the rate of exchange move during this period in the direction we have already indicated, the Indian merchant would find that he was as the result of the sale of his goods, the fortunate possessor of 16,500 rupees; whereas 11,000 would have yielded him the expected profit of 10 per cent. It will thus be seen that although the appreciation of gold with respect to silver, or, which

is the same thing, the depreciation of silver with respect to gold, may prove a loss to the merchant, who buys in England and sells in India: the same conditions would be a cause of gain to the trader, who buys in India and sells in England. Hence the export of commodities from England to India would be discouraged, while the export of commodities from India to England would be stimulated. When, therefore, it is asserted, that a fall in the value of silver with respect to gold is disastrous to the Indian trade, it should be clearly borne in mind, that this is only true from the point of view of the exporter of goods from England to India, and that to the exporter of goods from India to England, the downward tendency of silver is a source of unexpected gain.

XVI.

THE IDEA OF AN INTERNATIONAL CURRENCY WITH TWO METALS AND ONE STANDARD OR FIXED RATIO.

It is sufficiently obvious, that, if the change in the relative value of gold to silver had been, in the circumstances above considered, in an opposite direction; *i.e.* if the purchasing power of gold with respect to silver had fallen, the results would have been exactly the reverse to the exporters from England and to the exporters from India respectively. The former would have been gainers and the latter losers. This liability to an incalculable chance of loss or gain must, on the whole, be deprecated in the interests of commerce, and a School of Economists therefore have lately strongly represented the necessity of finding some means, whereby the relative value of gold to silver would be insured a greater degree of stability. With a view to this end

it has been proposed by the Modern School of Bimetallists to establish a sort of International Mint, or bullion market, in which the gold and silver of international currency could always be exchanged for each other at a constant ratio. The effect of such an institution, it is alleged, would be to cause the market rate of exchange between gold and silver to tend continually to approximate to the fixed ratio, or, in other words, to preserve an equilibrium at this point. The process by which this result would ensue, is that to which we have more than once alluded as the operation of the adjusting or compensating principle in domestic currency. We showed that if in the case of an internal currency there was a fixed Mint ratio legalized between gold and silver; the competition of private money dealers in seeking to derive a profit from the discrepancy between the Mint and Market ratios of gold and silver would have the effect of diminishing this discrepancy indefinitely. In the same manner, it is argued, that if, by an International convention between the various States of the Mercantile Republic, an offer was made to buy and sell gold and silver to an unlimited extent at a fixed value of one in terms of the other, this value would ultimately coincide with that ruling in the transactions of private bullion dealers. If, for example, the market ratio of gold to silver was one to 15, and the international Mint or conventional ratio was one to 20, then it would be so profitable to buy gold for silver in the open market, and exchange it again for silver in the International Market, that there would arise a competition of dealers to procure gold; so that 16, 17, 18, or 19 ounces of silver would be offered for an ounce of gold, until the conventional Mint and the open market rates were assimilated. It is upon this anticipation, that the advocates of a system of international fixed ratio bimetallism mainly rely, viz: that if one universal

rate of exchange is established between gold and silver, the bullion market of the commercial world must be governed by it. The position of the International Mint is, according to Mr. Barbour, "exactly the same as if a merchant came into the open market and offered to all comers either to give two bushels of wheat for three bushels of barley, or to give three bushels of barley for two bushels of wheat. In the latter case no other ratio than that of two to three could prevail between wheat and barley." For says Mr Barbour, "let us assume that when the merchant offered these terms of exchange the market rate was two bushels of wheat to three-and-a-half bushels of barley. As soon as the merchant made his offer, all persons, who had barley to sell, would resort to him. They would say, If we can get two bushels of wheat for three bushels of barley, from this man, why should we give three-and-a-half bushels for the same amount of wheat in the market? As long, therefore, as the merchant's stock of wheat enabled him to give two bushels of wheat for three of barley, no holder of barley would take less than two bushels of wheat for three of barley." (10.)

XVII.

THE AIM OF MODERN BIMETALLISM.

The system of International Bimetallism the *rationale* of which is above depicted is generally recommended by its advocates on the ground that its adoption would promote stability in the relative value of gold to silver. This expectation is based on the assumption, that the fluctuations in the ratio between gold and silver are mainly due to the direct action of operations in the bullion market. If it is argued, these operations were

(10) Theory of Bimetallism. Chap. 12. p.p. 54, 55.

undertaken by an international combination, extensive and powerful enough to control the money market of the mercantile world, the business of the private bullion speculator would be killed, and the vicissitudes of bullion values be brought under calculable conditions. There is no doubt some justification for this theory, for if individuals, and public or private corporations who possess silver are willing to exchange it for gold at any sacrifice, the relative value of silver to gold must thereby be directly and powerfully affected. The Bank of France was able for upwards of 70 years to maintain the free coinage of gold and silver at a fixed ratio of $15\frac{1}{2}$, notwithstanding the occurrence of many events which it might have been thought, would have impaired the stability of this ratio. As soon however, as the German Government chose to substitute gold for silver as the standard metal of their currency, and offered great quantities of silver in exchange for gold, the $15\frac{1}{2}$ ratio became so decidedly and permanently dislocated that the French Government was compelled to discontinue freely offering gold for silver, or silver for gold at the $15\frac{1}{2}$ rate. Again, in India the present depreciation of silver in terms of gold has been traced by many best able to form an opinion on the subject to the action of speculators who have long been storing up gold in anticipation of the appreciation of gold with respect to silver; a result which their own operations have largely contributed to bring about. "For according to a communication recently made to the Indian Government by the Madras Chamber of Commerce, Indian capitalists have during the last ten years been storing up gold in exchange for silver to the amount of 24,000,000/- sterling." If then some international bullion market could be established such disturbing agencies as these would certainly be controlled, and the relative value of the precious metals consequently steadied. But we have endeavoured to indicate in a preceding paragraph (X)

that besides the *direct* influence of bullion-dealers on the relative value of gold to silver ; the equilibrium of this value is constantly liable to be affected by the *indirect* operation of the changes in the purchasing power with respect to other commodities of gold and of silver, independently of each other. If any causes produced an appreciation in the purchasing power of gold with respect to commodities and no corresponding change took place in the case of silver, then the purchasing power of gold with respect to silver would likewise be appreciated. Such is the solidarity of the Commercial world at the present day, that however remote may be the locality in which such disturbances are going on, their influence is certain to vibrate through the bullion mart of the civilized world with a power which no conventional monopoly would be able to restrain. Hence the discrepancy between the fixed and market ratio of gold to silver would continue, and as long as it continued, the bullion operations, according to the standard fixed by the International Convention would be carried on at a manifest loss and could only be maintained as long as in Mr Barbour's words "The merchant's stock of wheat enabled him to give two bushels of wheat for three of barley."

But when this stock of wheat has been exhausted, no bimetallist ever tells us how it is to be replenished ; —Governments they insist have the power of endowing bullion with the functions of money. But we have nowhere seen it maintained that Governments, either single or united, have the power of creating bullion itself and this is the prerogative which they certainly must possess, if they hope to continue the existence of an International bullion market in spite of adverse conditions over which they have no control. We shall not here discuss the merits of another aim which the bimetallists profess to have in view, viz : the increasing of

the volume of the currency in communities and thereby ensuring a reign of high prices. The doctrine that prices depend upon the stock of bullion in a country is so far sound, that the expansion of credit is based on the existence of such a stock. But, Credit is not Currency, and according to the principles we have expounded in the preceding pages, money and prices have no *causal* connection with each other. On this subject the reader should consult a pamphlet entitled "The Appreciation of Gold, and the Fall in Prices of Commodities," by Hans Forssell, Ex-minister of Finance of Sweden (Effingham Wilson, London, 1886).



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